

WATER/KPC/KOK/DLW/RHG

Ratesetting

Decision _____

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

In the Matter of the Application of ALISAL
WATER CORPORATION, INC. U-206 W, for an
Order authorizing it to issue notes in an amount
not exceeding \$8,500,000, and to execute a related
agreement and supplemental security
instruments.

Application 05-08-038
(Filed August 18, 2005)

OPINION GRANTING AUTHORITY ON BORROWING

1. Summary

This order authorizes Alisal Water Corporation, Inc. (Alisal) to enter into loan agreements with financial institutions for the purpose of borrowing \$8,500,000, to be used for the reimbursement of treasury, installation and construction of a storage tank, and construction of three new wells, pursuant to Pub. Util. Code §§ 816, 817, 818 and 851.¹ In addition, the order authorizes Alisal to continuously renew short-term debt of up to a \$500,000 aggregate amount.

2. Background

Alisal is a California corporation operating as a public utility water company under the jurisdiction of the Commission. Alisal provides water service to approximately 8,500 customers in the eastern portion of Salinas and small residential communities in nearby rural areas.

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

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Alisal's income statement for calendar year 2004, as shown in Attachment C to Application 05-08-038 (Application), presents total operating revenues of \$4,152,010 and a net loss of \$158,440. The balance sheet as of December 31, 2004, as shown in part of Attachment B to the Application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Current Assets	\$ 2,687,870
Noncurrent Assets	1,245,535
Net Property, Plant, and Equipment	<u>13,589,839</u>
Total Assets	<u>\$17,523,244</u>
<u>Liabilities & Stockholders Equity</u>	
Current Liabilities	\$ 6,487,741
Long-Term Debt	509,834
Other Liabilities & Deferred Credits	4,344,360
Contributions in Aid of Constructions	4,827,551
Stockholders' Equity	<u>1,353,758</u>
Total Liabilities & Stockholders Equity	<u>\$17,523,244</u>

3. Notice and Protests

Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 2, 2005. No protests have been received.

4. Description of Financing

Alisal seeks authority to enter into a loan agreement with one or two financial institutions for \$8,500,000. The proposed loan/s will be secured by the assets of Alisal. In addition, the loan/s may be personally

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guaranteed by Alisal's principal shareholders. The loan/s is estimated to have an interest rate of 9.5% with a term of 20 to 30 years.

Alisal is also requesting authorization to continuously renew short-term debt of up to a \$500,000 aggregate amount for a period of five years. The continuous refinancing of short-term debt results in a combined term that exceeds twelve months. Accordingly, our approval is required pursuant to Pub. Util. Code § 823(d).

5. Cash Requirements Forecast

Alisal's 2-year cash requirements forecast are summarized as follows:

	<u>2006</u>	<u>2007</u>	<u>Total</u>
Funds for construction	\$5,130,000	\$1,148,331	\$6,278,331
Bonds, Notes retired	0	0	0
Short-term debt payment	3,453,601	0	3,453,601
Refunds of advances	<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total Cash required	\$8,683,601	\$1,248,331	\$9,931,932
Estimated cash available			
from internal sources	\$ <u>325,000</u>	\$ <u>531,200</u>	\$ <u>856,200</u>
External financing	\$ <u><u>8,358,601</u></u>	\$ <u><u>717,131</u></u>	\$ <u><u>9,075,732</u></u>

Alisal's 2-year forecasted external financing requirement totals \$9,075,732. The \$8.5 million requested authority in the Application is necessary to help meet the forecasted cash requirement. In addition, Alisal may use short-term debt to augment its financial requirements.

DRAFT**6. Capital Structure**

Alisal's capital ratios are shown below, as recorded, and as adjusted, giving a pro forma effect to the transactions listed:

		<u>Recorded</u>	<u>Adjustments</u>	<u>Proforma</u>	
Long-term debt	\$ 509,834	9.59%	\$8,500,000	\$ 9,009,834	80.71%
Short-term debt	<u>3,453,601</u>	<u>64.95%</u>	<u>(2,953,601)</u>	<u>500,000</u>	<u>4.48%</u>
Subtotal	\$3,963,435	74.54%	\$5,546,399	\$ 9,509,834	85.19%
Preferred Stock	\$ 0	0.00%	\$ 0	\$ 0	0.00%
Common Equity	<u>1,353,758</u>	<u>25.46%</u>	<u>300,000</u>	<u>1,653,758</u>	<u>14.81%</u>
Total Capitalization	<u>\$5,317,193</u>	<u>100.00%</u>	<u>\$5,846,399</u>	<u>\$11,163,592</u>	<u>100.00%</u>

Notes of Adjustments:

A. Long-term Debt:

(1) Issuance of \$8,500,000 of long-term debt requested in this Application.

B. Short-term Debt:

(1) Payment of \$3,453,601 of existing short-term debt.

(2) Issuance of \$500,000 of new short-term debt.²

C. Common Equity:

(1) Projected increase in retained earnings of \$300,000.

Alisal's capital structure for the year ending December 31, 2004, consists of 25.46% equity and 74.54% debt.

Capital structures are normally subject to review in cost of capital or general case proceedings. We will not, therefore, make a finding in this decision on the reasonableness of the projected capital ratios for ratemaking purposes.

² The payment of \$3,453,601 in short-term debt, offset by the issuance of \$500,000 of new short-term debt results in the net adjustment of \$2,953,601 (\$3,453,601 - \$500,000).

DRAFT**7. Use of Proceeds**

The Application states that the loan/s requested will be used for the reimbursement of treasury for capital expenditures and the construction and improvement of plant.

a. Capital Expenditures

Alisal's plant additions for years 2000 through 2004, as shown in its data response, dated December 20, 2004, are as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
Contributions in aid of construction	\$ 520,707	\$ 64,815	\$ 412,473	\$ 203,147	\$ 443,269	\$1,644,411
Advances for construction	220,523	0	81,880	0	465,100	767,503
Plant financed with utility funds	<u>454,107</u>	<u>651,754</u>	<u>364,149</u>	<u>1,180,526</u>	<u>719,870</u>	<u>3,370,406</u>
Total Plant Additions	<u>\$1,195,337</u>	<u>\$ 716,569</u>	<u>\$ 858,502</u>	<u>\$1,383,673</u>	<u>\$1,628,239</u>	<u>\$5,782,320³</u>

Alisal indicates that the plant additions financed with treasury funds, for the years shown above, totals \$3,370,406. The utility-invested plant for years 2000, 2001, and 2002, amounting to \$1,470,010, was included in a rate base offset approved by Resolution (Res.) W-4417 dated August 21, 2003. The utility-invested plant for years 2003 and 2004, amounting to \$1,900,396, was included in rate base during Alisal's recent general rate increase approved by Res. W-4577, dated December 15, 2005.

³The additions include expenditures for land, structures, wells, pump equipment, tanks, mains, meters, hydrants, service installations, and other miscellaneous plant additions.

DRAFT**b. Construction Budget**

Alisal's construction budget for 2006 and 2007, as shown in the supplemental data to the Application follows:

<u>Item</u>	<u>2006</u>	<u>2007</u>
14,079 feet of 24" PVC	\$1,619,000	
5,031 feet of 8" PVC		\$ 345,900
Meters		297,250
Security lights & camera		31,577
Backflow prevention		423,604
Miscellaneous		50,000
Concrete water storage tank ⁴	2,075,000	
Nominal capacity - 5 million gallon		
Sidewater depth - 30' 0"		
Inside diameter - 172' 0"		
Concrete water storage tank site	500,000	
Fencing, roadways, etc.	60,000	
Booster pumping facility		
(to pump water up to the new storage facility)	<u>250,000</u>	
Subtotal	<u>\$4,504,000</u>	
Construction of three new wells to replace wells		
That will be retired on January 1, 2006 due to		
High levels of Arsenic according to the new		
Arsenic MCL set by EPA	<u>626,000</u>	<u> </u>
Total	<u>\$5,130,000</u>	<u>\$1,148,331</u>

Alisal's estimated 2-year construction requirement totals \$6,278,331.

As indicated in Res. W-4577, the actual cost of plant additions for years 2005 and 2006, currently estimated at \$1,587,065 and \$5,758,847, respectively, have been authorized to be included in rate base, in test year 2006. Res. W-4577 also allowed the 2007 actual cost of plant additions,

⁴ The water storage tank estimated cost is for a pre-stressed concrete tank and includes all work associated with the floor, footing, wall, roof, and standard appurtenances attached to the tank and exterior coatings for the roof and wall.

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currently estimated at \$1,148,331, in escalation year 2007. Pursuant to Res. W-4577, the actual costs of the additions are subject to filing, by advice letter, to adjust rates for the actual end-of-year rate base.

While the construction, extension or improvement of a company's facilities is a proper use for financing authority, pursuant to § 817(b), we will not make a finding in this decision on the reasonableness of Alisal's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases, and in this case are subject to the filing and approval ordered in Res. W-4577.

8. Loan Approval

Alisal's request to issue debt is subject to § 816 *et seq.*, which provide, in relevant part, as follows:

Section 816: The power of public utilities to issue... evidences of indebtedness and to create liens on their property situated within this State is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.

Section 817: A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

(b) For the construction, completion, extension, or improvement of its facilities.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or

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bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

Section 818:

No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness payable at periods of more than 12 months..., in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied...

Section 823(d):

No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

Section 851:

No public utility... shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its... plant, system, or other property necessary or useful in the performance of its duties to the public....without first having secured from the commission an order authorizing it so to do.

The Commission has broad discretion under § 816 *et seq.*, to determine if a utility should be authorized to issue debt. The primary standard used by the Commission is whether a utility has demonstrated a

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reasonable need to issue debt for proper purposes.⁵ Alisal's proposed use of the proceeds to reimburse its treasury and fund its projected construction budget is a proper use of funds within the purview of § 817(b) and (h).

In its ongoing operations, Alisal utilizes short-term debt for its daily cash needs. Commission authorization is required under § 823(d) for the continuous refunding of previously issued short-term debt securities, which brings the combined terms of the original and the refunding debt securities to exceed twelve months.

We will, for the purposes of this proceeding, permit Alisal for a period of five (5) years from the date of this decision, to renew previously issued short-term debt securities of up to an aggregate amount of \$500,000 at any given time, such that the combined terms of the refunded issues and the new debt securities may exceed twelve months, to comply with the requirements of § 823(d). With this authority, Alisal will be relieved of the requirement to seek the consent of the Commission to refund or renew short-term debt with short-term debt at the end of each year.

We will approve the financing authority requested in the Application. Pursuant to § 851, we will allow Alisal to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

9. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3158 dated September 8, 2005, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests

⁵ The term "proper purposes" means any expenditure that is necessary or proper to promote legitimate objects of a public utility of the type concerned. (207 Cal 630 (1929).)

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have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3158.

10. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

11. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b). Alisal should pay the fee of \$9,500.⁶

12. Assignment of Proceeding

Kevin P. Coughlan is the assigned Examiner in this proceeding.

Findings of Fact

1. Alisal , a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Alisal needs external funds for the purposes set forth in the Application.
3. The proposed debt issue is for proper purposes and is not adverse to the public interest.
4. The reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.

⁶ The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times 7,500,000/1000) = \$9,500$.

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5. The Commission does not by this decision determine that the previous capital expenditures, construction budget and capital ratios, presented herein, are necessary or reasonable for purposes of setting rates.

6. Authorizing Alisal to encumber utility assets as required to secure the loan is for proper purposes and is not adverse to the public interest.

7. A five-year authority to refund or renew short-term debt so that the combined terms of such indebtedness may exceed twelve months is not adverse to the public interest.

8. Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 2, 2005. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. Alisal should pay the fee determined in accordance with § 1904(b).
4. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Alisal Water Corporation, Inc. (Alisal), upon terms and conditions substantially consistent with those set forth or contemplated in Application 05-08-038 (Application), is authorized, pursuant to § 816 et seq. of the Pub. Util.

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Code, to secure loans in an amount not to exceed \$8,500,000 and to encumber its assets in connection with the debt issue.

2. Alisal shall apply the proceeds of the loans for the purposes specified in the Application and discussed in this Decision.

3. Alisal may continuously renew short-term debt so that the combined term will exceed twelve months, for a period of five years, for a total amount of \$500,000, at any given time from the effective date of this order.

4. Alisal shall keep and maintain copies of the Loan Contracts, the Mortgage Notes, and all related documents, and within thirty days from request provide copies to the Water Division's Utility Audit, Finance and Compliance Branch (UAFCB).

5. On or before the 25th day of each month, Alisal shall file with the Water Division's UAFCB the reports required by General Order Series 24.

6. The authority granted by this order shall become effective when Alisal pays \$9,500 as required by Pub. Util. Code § 1904(b).

7. The Application is granted as set forth above.

8. A.05-08-038 is closed.

This order is effective today.

Dated _____, at San Francisco, California.